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"I am excited by what the future holds for ISG. We are moving forward with a great sense of shared purpose to help our clients **Experience ISG** fully and create long-lasting value for them—in 2019 and in the years ahead."



#### To My Fellow Shareholders:

2018 was another year of great progress for ISG. Continuing our "Go Digital" journey, we delivered record revenues as we focused our energies on evolving our product and service portfolio to meet the growing digital needs of our clients, while applying those same digital business principles and technologies to improving our own operations.

Digital now represents more than 40 percent of our revenues, topping the \$100-million mark for the first time. That's more than four times what it was just three years ago, and we expect that number to rise to 50 percent in the next 18 months, as more of our work focuses on helping clients digitally transform their businesses for greater efficiency and faster growth.

There isn't a client conversation now that doesn't include some element of digital, and we are responding by building digital capabilities into each of our service lines. A great example is ISG FutureSource™, our next-generation digital sourcing solution. This innovative offering reinvents our traditional sourcing services and addresses the need for speed and agility in today's increasingly complex digital sourcing environment.

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Some of our services, like ISG Automation, were born digital. This business, which meets the rising demand for robotic process automation (RPA), has grown significantly from its startup phase in 2016 and should hit run-rate revenues of \$30 million by the end of 2019—only three years into its maturity.

ISG Automation is growing in value for both our clients and our firm, as evidenced by the market valuations placed on our automation software partners Automation Anywhere, Blue Prism, UiPath and WorkFusion, as well as automation solution providers like ISG. Indeed, based on these valuations, we believe the current value of our ISG Automation business is higher than the \$74 million we paid for Alsbridge—including its fledgling RPA business—in 2016. We are exploring bolt-on acquisitions and other avenues to create further value in this entity for our shareholders.

### [A Focus on Innovation](#)

In 2018, we launched ISG Blockchain Now™, a new advisory and sourcing solution that enables our clients to improve the efficiency, accuracy and security of their business processes through distributed ledger technology. We expect this business to evolve over time, but as with automation, ISG is entering the arena now to create use cases with clients—in preparation for when this technology becomes more mainstream over the next few years.

We also have been successful growing our recurring-revenue streams. These annuity-like offerings—Managed Services, Research, U.S. Public Sector, Software-as-a-Subscription and Benchmarking-as-a-Subscription—now are approaching \$80 million in annual revenue, up from \$60 million in 2016 and just \$20 million a few years ago. Our goal is to reach \$100 million during our current three-year planning period.

As in our other business lines, digital innovation is fueling the growth of our recurring-revenue offerings. Last year, we launched ISG GovernX™, our digital managed services solution. This platform service leverages cognitive technology to automate key processes in the management of third-party supplier relationships. In January of this year, we released version 2.0, which adds dynamic scorecards, cognitive-enabled contract extractions, and an enhanced user experience.

Also, in January, we launched our new, subscription-based Data-as-a-Service offering, ISG InformX™, which



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leverages our industry-leading data to deliver insights into our clients' IT performance against key market and industry indicators. Together, ISG GovernX and ISG InformX pave the way for the creation of an ISG platform delivery model that would allow our clients to access our data and services on demand, and allow us to expand our market opportunities and reach.

Indeed, software is becoming an increasing focus area for ISG. With Software-as-a-Service (SaaS) platforms such as ISG GovernX and ISG InformX; our ISG ProBenchmark<sup>®</sup> online market-pricing tool; our ISG Momentum<sup>®</sup> Contract KnowledgeBase; RPA software subscriptions, configuration and implementation services, and our Software Advisory Services, we see software platforms, subscriptions and related services becoming an even bigger part of our offering set going forward.

The platform version of the ISG Momentum Contract KnowledgeBase, which allows easy online access to our industry-leading market intelligence, was one of several innovative new solutions ISG Research brought to market last year. Others included the ISG Digital Innovation Tour<sup>™</sup>, ISG Momentum Accelerator<sup>™</sup> and the ISG Customer Experience Study. ISG Research also repositioned its ISG Insights<sup>™</sup> analyst offering, continued the global expansion of its ISG Provider Lens<sup>™</sup> provider research, and nearly doubled revenues from ISG Events.

Go Digital. Automation. Growing recurring revenues. Innovation. They all add up to a record-setting performance in 2018 and set the stage for even stronger results in the years ahead.

### 2018 Financial Highlights

ISG reported record full-year 2018 revenues of \$275.8 million, up 2 percent over the prior year. Among our regions, Europe led the way, with reported revenues up 15 percent, to \$95.1 million. In particular, the Germany-Austria-Switzerland (DACH) sub-region, our second-largest revenue market after the United States, turned in strong results, and our North Europe sub-region, anchored by the UK and the Nordics, delivered an impressive turnaround performance after facing Brexit headwinds in 2017. In the Americas, reported revenues were \$159.1 million, down 2 percent, as pockets of strong growth were offset by uneven performance in other areas. Asia Pacific, our smallest region, reported revenues of \$21.5 million. Adjusted EBITDA for the year was \$33.0 million.

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Our business generated strong cash flows in 2018, producing \$19 million of cash from operations, our best result in five years. In 2018, we invested \$4 million in capital expenditures, repurchased \$3 million of shares and repaid \$18 million of debt. We ended 2018 with \$19 million of cash and reduced our debt to \$99 million. In 2019, we plan to accelerate the return of cash to our shareholders, including increasing our share repurchases and further reducing debt by 8 to 10 percent.

## "The key to our organic growth continues to be our ability to offer end-to-end solutions that deliver the full value of ISG."

### Delivering the Full Value of ISG

No other firm our size offers as many capabilities as ISG. With more than 50 percent share of the advised sourcing market and a growing proportion of digital services, ISG remains a market leader in technology research, advisory and managed governance services. Through acquisition and innovation, we have expanded our capabilities in such areas as automation, enterprise agility and DevOps, organizational change management (OCM), network services and software advisory services—all crucial to the delivery of our digital solutions.

More and more, our enterprise clients are turning to us for advice and support to deliver on their broad-scale digital transformation initiatives. We are helping them transform every facet of their business—from back-office workflows to consumer-facing apps—to increase the speed, flexibility, collaboration and connectivity they need to remain competitive and meet ever-shifting customer requirements.

The key to our organic growth continues to be our ability to offer end-to-end solutions that deliver the full value of ISG. Last year, we developed new solutions around Enterprise Agility, Cloud Transformation, Application Modernization and Workplace of the Future. And in 2019 we will place even greater emphasis on industry-specific solutions that leverage our vertical expertise and capabilities. In addition, as part of our drive to accelerate organic revenue growth, ISG is expanding its roster of client-facing partners focused on business development and solution-selling.



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Although 2019 begins with currency headwinds and a turbulent global macro-economic environment (Brexit, trade wars, U.S. congressional battles and other challenges), I am convinced we will succeed by maintaining our client-first focus.

### Applying 'Go Digital' to ISG

As we advise our clients on their digital business opportunities, we are applying these same "Go Digital" principles to our own business.

The most visible symbol of our Go Digital push was our move last year into our new, state-of-the-art, all-digital global headquarters in Stamford, Connecticut. Our new facilities feature the latest digital workplace technology, an ISG Tech Bar, the ISG Digital Experience Center and the ISG Academy, the firm's new digital learning center. We are proud of our new headquarters, which has become a "digital destination" for our clients, business partners and ISG employees from around the world.

Leveraging platform technology, we further digitized our account management processes and added detailed analytics to drive action. Our marketing efforts, too, are benefiting from a digital approach. In 2018, we used artificial intelligence (AI) to deliver more precise marketing messages and improve our targeting. In our consulting business, tools are being built to support digital data collection and real-time analytics, to bring greater value to our clients.

Our digital success, of course, relies not only on tools and platforms, but people. We continue to emphasize digital training and certification for all employees and look to improve organizational effectiveness and knowledge-sharing through collaboration platforms and digital communities.

**ISG is committed to being the digital business partner of choice for our clients.**

Experience ISG

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Experience ISG. That is the rallying cry for our firm in 2019, as we turbo-charge our efforts to demonstrate the full power of ISG to our clients and prospects.

ISG is committed to being the digital business partner of choice for our clients. That means touching every part of the client's enterprise—working with the CEO, CIO, CFO, CMO and others to set strategy, select business partners and orchestrate the delivery of technology services to operations, finance, human resources, sales and marketing, product engineering and more.

Our goal is to help our clients see the “art of the possible,” to imagine a future where non-linear thinking leads to unforeseen growth opportunities; where every business is run on data, advanced analytics and cognitive intelligence; where every customer experience is enhanced by technology.

Every day, our 1,300 digital-ready professionals demonstrate our innovation, client focus and entrepreneurial spirit. Now, together, we are committed to taking our firm to the next level of performance and value.

We will get there by accelerating the process of bringing new solutions to market—not only to drive incremental revenue growth, but to develop breakthrough ideas that become game-changers for our business and our clients.

I believe we have the intellect, resources and experience to be an industry disruptor. We pioneered the sourcing advisory industry and we will transform it again. One way we will do that is to develop our emerging platform-as-a-service business. Such an approach will add tremendous value to our advisory services and enable us to attract an even broader clientele.

At ISG, we consider every client relationship, big or small, to be boundary-less—transcending borders and business units to deliver what our clients need, not what we have to sell them. By focusing first and always on client success, we will continue to build long-term, trusted partnerships with our clients that leverage our full suite of capabilities to produce ongoing improvements in business performance.

In closing, I want to thank our employees for the passion, dedication and focus they bring to serving our clients

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In closing, I want to thank our employees for the passion, dedication and focus they bring to serving our clients every day. I also want to thank our leadership team, our Board of Directors and our loyal clients for the tremendous success we enjoyed in 2018. Finally, I want to thank you, our shareholders, for your continued support and confidence in ISG.

I am excited by what the future holds for ISG. We are moving forward with a great sense of shared purpose to help our clients **Experience ISG** fully and create long-lasting value for them—in 2019 and in the years ahead.

Sincerely,



Michael P. Connors  
Chairman and Chief Executive Officer  
March 15, 2019